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TO RUEHC/SECSTATE WASHDC PRIORITY 1459

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY

RUCNCIS/CIS COLLECTIVE PRIORITY

RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY

RUEHAD/AMEMBASSY ABU DHABI PRIORITY 0429

RUEHAK/AMEMBASSY ANKARA PRIORITY 4232

RUEHBJ/AMEMBASSY BEIJING PRIORITY 2044

RUEHKL/AMEMBASSY KUALA LUMPUR PRIORITY 0224

RUEHKO/AMEMBASSY TOKYO PRIORITY 1909

RUEHIT/AMCONSUL ISTANBUL PRIORITY 2480

RHMFIA/CDR USCENTCOM MACDILL AFB FL PRIORITY

RUEAAIA/CIA WASHDC PRIORITY

RHEFDIA/DIA WASHDC PRIORITY

RUEKJCS/Joint STAFF WASHDC PRIORITY

RHEHNSC/NSC WASHDC PRIORITY

RUEKJCS/SECDEF WASHDC PRIORITY

RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY

RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 04 ASHGABAT 001153

SIPDIS

STATE FOR SCA/CEN, EEB

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COMMERCE FOR HUEPER

E.O. 12958: DECL: 09/02/2018

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SUBJECT: TURKMENISTAN: REASONS FOR HYDROCARBON SECTOR

START TO COME INTO FOCUS

REF: ASHGABAT 1131

Classified By: Charge d'Affaires Sylvia Reed Curran for reasons 1.4(B) and (D).

¶1. (C) SUMMARY: A week after President Berdimuhamedov's August 27 decision to shake up Turkmenistan's hydrocarbon leadership, there continues to be much speculation about his reasons for making the changes. All post's sources agree that there are no indications that the Executive Director of the State Agency for Management and Use of Hydrocarbon Resources, Bayrammurat Muradov, was fired in disgrace. Turkmenistan's hydrocarbon agencies are portraying the decision to appoint a new Director -- former TurkmenGaz Chairman Kakayev -- as a move designed to make the State Agency more user-friendly and efficient. Muradov himself is widely rumored to be waiting for an appointment either as Turkmenistan's new Deputy Chairman for Oil and Gas, or as ambassador to the United Kingdom. According to a well-connected contact, the shake-up at the State Agency was meant to take out of the running the individual most likely to oppose Russia's efforts to strengthen its control over Turkmenistan's hydrocarbon sector. Most foreign oil company contacts welcome the change, believing that Kakayev's appointment will bring a new professionalism and expertise to the previously understaffed and underexperienced body that serves as their main interlocutor in Turkmenistan. END SUMMARY.

STILL NO INDICATION OF REASONS FOR SHAKE-UP

¶2. (C) A week after Turkmenistan President Berdimuhamedov's August 27 decision to shake-up the hydrocarbon sector leadership, the Executive Director of the State Agency for Management and Use of Hydrocarbon Resources, Bayrammurat Muradov a few things regarding the move appear to be coming into focus. While there were suggestions almost from the March 2007 establishment of the State Agency that Muradov and the Deputy Premier for Oil and Gas Tachberdi Tagiyev were not

getting along and that one or the other was on his way out, the president's move, when it actually came, caught almost everybody by surprise. The local Wintershall country manager and an employee from ConocoPhillips reported that Muradov called them the morning of August 27 to report that he was departing and that TurkmenGaz Chairman Yagshygeldi Kakayev would be the new State Agency Director. (NOTE: Kakayev's title has been changed from Executive Director to Director. END NOTE.) This was the first that anybody knew that changes were being introduced. In making his announcement, the president did not raise Muradov's name, although he stressed several times during the meeting at the Ministry of Oil and Gas his country's wish to make the State Agency a body capable of attracting foreign capital, experience and technology.

MURADOV RUMORED TO REPLACE TAGIYEV OR BECOME AMBASSADOR

¶3. (C) There have been no indications that Muradov was removed for wrongdoing and an ExxonMobil representative reported September 2 that in his meetings with TurkmenGaz and the State Agency, the personnel change was being portrayed as a natural move given the State Agency's new responsibilities.

In fact, there were strong indication that wherever he was headed, he would get a soft landing. There was no announcement in the paper on his removal, only on the appointment of his successor. (NOTE: Normally, such decrees explain why a person was removed, including for health reasons, corruption, or inadequate performance. END NOTE.) We have heard that, now that the new Petroleum Law has given

ASHGABAT 00001153 002 OF 004

the State Agency a funding mechanism and major new powers, the body's personnel roster is to expand from 17 to over a hundred. In addition to this expansion, the State Agency reportedly is planning to open an overseas office in the West, most likely in London. There continues to be much speculation about Muradov's fate; most claim either that he will shortly be appointed to replace Tagiyev, or that he will be sent as Turkmenistan's ambassador to the United Kingdom. (COMMENT: Many of these suggestions may have been spurred by Muradov's comment to the Wintershall country manager on August 27 that he would be "appointed or ordered" to his next position. END COMMENT.)

WESTERN COMPANIES GENERALLY POSITIVE ABOUT CHANGE

¶4. (C) Western oil companies' reactions to the change have been generally positive, if startled that their main interlocutor in Turkmenistan's hydrocarbon sector has changed. All along, companies have noted that the State Agency has too few people -- and too few personnel with hydrocarbon backgrounds -- to function effectively or to make informed decisions in its guise as foreign oil companies' main partner in the government. Muradov himself, while closely connected to the president, was nonetheless a micromanager who was simultaneously central to all discussions and difficult to reach. Most that we have polled who have had contact with Kakayev have noted that he is a very capable hydrocarbon technocrat with close personal ties to Tagiyev. Most have concluded that, as long as Turkmenistan's hydrocarbon policy does not change, Kakayev's leadership of the State Agency is a positive development.

DOES THE SHAKE-UP BENEFIT RUSSIA? YES, SAYS ONE EXPERT

¶5. (C) EU-TACIS representative Michael Wilson, a well-connected contact who has reported accurately on previous personnel changes, agreed that there is no information circulating that Muradov was removed for cause. Instead, he suggested, Muradov was an individual who has opposed, albeit cautiously, policies that he feels are not beneficial to Turkmenistan. This, he said, may have put him at odds with the president's pro-Russia advisors (Kramov, Zhadan and Umnov), who are supporting Russia's efforts to maintain its near-stranglehold on Turkmenistan's gas. While

Wilson acknowledged that Kakayev is a smart man, he also believes that the new State Agency Director will be less likely than his predecessor to oppose what he suggested is the president's inclination to cede ground to the Russians.

¶6. (C) Wilson also maintained that Russia's latest strategy of using the promise of increased commerce and investment -- and its promise of no-interest loans in the energy sector -- as sweeteners to promote its energy agenda are succeeding in persuading the president to abandon his early support for pipeline diversification. The president is beginning to recognize that he still has no viable alternative export countries, other than China, to serve as a counterweight to Russia. It was for this reason that Berdimuhamedov offered to increase the amount of natural gas that Turkmenistan will sell annually to China from 30 to 40 billion cubic meters. However, given Turkmenistan's still-limited production capabilities and the swelling list of export commitments, hydrocarbon sector officials feel they have no choice but to look to the Russians -- who are offering no-interest loans -- to finance the rapid expansion of production infrastructure. Wilson suggested that Russia clearly sees this strategy as the lowest-cost way of ensuring that it continues to control all Central Asian natural gas flowing to Europe.

ASHGABAT 00001153 003 OF 004

AN ALTERNATE VIEW OF KAKAYEV

¶7. (C) A contact who at one time worked closely with Kakayev on negotiations for the trans-Afghanistan (TAPI) pipeline, agrees that Kakayev is both technologically capable and a good manager. Kakayev, according to this contact, is a Turkmen nationalist who received his training in Turkmenistan. Although he has been Turkmenistan's chief negotiator with Gazprom, he also spearheaded his country's negotiations with the China National Petroleum Corporation (CNPC), and also participated in TAPI and trans-Caspian pipeline negotiations. This contact, who accompanied TurkmenGaz officials on a trip to the United States sponsored by the U.S. Trade and Development Agency, also stated that he was told by those officials that Kakayev, who has a background in hydrocarbon sector research and development, has a strong appreciation for the technology and expertise that Western -- and particularly U.S. -- companies can bring to Turkmenistan. Kakayev, according to this contact, speaks passable to good English, though he only speaks Russian in meetings.

¶8. (C) COMMENT: With Turkmenistan's and Azerbaijan's efforts to sort out their differences hitting a speed bump and growing doubts about the security of the Baku-Tbilisi-Ceyhan pipeline, Berdimuhamedov may well be concerned that his export pipeline options -- and possible leverage against Russia -- are dwindling. However, the president has expressed to U.S. officials on several occasions that he recognizes the cost to Turkmenistan's sovereignty of giving Russia too much leash here. He may have decided that the State Agency, which has signed only one contract to date with a western oil firm (Buried Hill in block III), may need some different leadership to help make it into the productive, positive body that he intended it to be, and the president may have taken advantage of the changes mandated by the new Petroleum Law to give the newly revamped agency the management it needs to help it fulfill its new role. The replacement of a generalist (Muradov) with a technocrat (Kakayev) will challenge the agency's ability to function as an effective negotiating partner for Western companies. While Kakayev comes to his job with a wealth of technical experience, he nonetheless lacks the broader understanding of world markets and financing that Muradov had seemed eager to embrace. For this reason, we urge Washington to strongly consider a follow-on program to the USTDA training project that would further enrich the State Agency's ability to broaden its scope. END COMMENT.

BIO -- YAGSHYGELDI KAKAYEV (NEW DIRECTOR OF THE STATE AGENCY)

¶ 9. (U) Kakayev was born in 1959 in Dashoguz Province's Gorogly District. He graduated from the Turkmen Polytechnic Institute in 1982 with a major in oil and gas drilling and complex mechanization. From 1982-1986, he was an engineer and junior researcher at the Turkmen branch of the All-Soviet Scientific Research Institute of Gas. Following the institute's renaming to the Turkmen Scientific Research and Design Branch Institute, he continued on, serving as researcher, then senior researcher. In 1996, he was appointed the chief of the Administration for Oil and Gas Processing at the Ministry of Oil and Gas. On February 22, 2007, he was appointed the Chairman of TurkmenGaz.

BIO -- BAYMURAT HOJAMUHAMMEDOV (NEW TURKMENGAZ CHAIRMAN)

¶ 10. (U) Hojamuhamedov was born in Ashgabat in 1961, and graduated from the Turkmen Polytechnic Institute in 1977 with a degree in mountain engineering and hydrology. From

ASHGABAT 00001153 004 OF 004

1984-1987, he served as a senior laboratory assistant and then engineer at the Turkmen Geological Exploration Research Institute. From 1987-1990, he pursued graduate studies at the Moscow Geological Exploration Institute named after S. Orjonikidze. Upon receiving his graduate degree, he went to work as the senior hydrologist at Turkmen Geology. Subsequently, he served as assistant to the Minister of TurkmenNebitGas State Trade Corporation, Turkmenistan's agency responsible for selling hydrocarbons overseas. After he became head of TurkmenNebitGas' Gas Export department, he was appointed in 2003 as Deputy Chairman of the National Barter Center under the Cabinet of Ministers, a position he occupied for two years. (NOTE: The National Barter Corporation is the implementing organization for all Turkmenistan's barter deals.) There are two years -- from 2005 to 2007 -- when there is no record of what he did. However, as a department head of the TurkmenNebitGas State Trade Corporation, he helped to dissolve the organization. From that time until July 13, 2007, he was Chief of Procurement at TurkmenGaz. He served as Minister of Oil and Gas Industry and Mineral Resources from July 13, 2007 until August 27, 2008, when he was appointed Chairman of TurkmenGaz.

BIO -- BAYRAMGELDY NEDIROV (ACTING MINISTER OF OIL AND GAS)

¶ 11. (SBU) Nedirov was born on May 15, 1957 in Ajap Mamedov Village. He graduated from the Turkmen Polytechnical Institute with a degree in geology and hydrocarbon exploration. In 1983, he pursued graduate studies at the Moscow Institute of the Petroleum Industry. From 1995-1997, he served as chief economist in the Ministry of Oil and Gas's construction department. From 1997-2000, he was chief geologist for the Turkmenistan branch of the Turkish Petroleum Corporation. Nedirov was appointed First Deputy Minister of Oil and Gas on April 20, 2007, and was promoted to the position of Acting Minister of Oil and Gas when Hojamuhamedov was moved to TurkmenGaz. Nedirov participated in USTDA's trip for hydrocarbon officials in September of 2007, and was a frequent visitor/participant in the training program that USTDA provided to the State Agency.

CURRAN